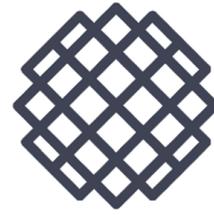




Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS AND
COMPLIANCE OF THE KOSOVO JUDICIAL COUNCIL FOR
YEAR 2021

Prishtina, May 2022

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1 Audit Opinion

We have completed the audit of the financial statements of Kosovo Judicial Council for the year ended on 31 December 2021 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion the financial statements and conclusion on compliance with authorities¹.

Qualified Opinion on the Annual Financial Statements

We have audited the annual financial statements of Kosovo Judicial Council (KJC), which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports², for the year ended as at 31 December 2021.

In our opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph, the annual financial statements of Kosovo Judicial Council give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for Qualified Opinion

A1 Court buildings and land parcels in the amount of €2,037,278, which are not being used by KJC, were presented in the capital asset registers in KFMIS by overstating the value of capital assets over €1,000 reported in the AFS.

The register of capital assets over €1,000 reported in the AFS was understated by €9,701 due to failure to record the purchases made during the year.

The value of non-capital assets under €1,000 reported in the AFS was understated due to failure to record the assets of €82,075 in the books and because depreciation expenses were calculated by €46,576 in excess.

For more detailed information see subchapter 2.1 Issues with impact on the audit opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. NAO is independent from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

¹ Compliance with authorities – compliance with all the public sector laws, rules, regulations, and relevant standards and good practices

² Other reports are required under Article 8 of Regulation no.01/2017 on Annual Financial Report

Conclusion on Compliance

We have audited whether the processes and underlying transactions are in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources

In our conclusion, except for the effects of the matter(s) described in the *Basis for Compliance Conclusion* section of our report, transactions carried out in the process of execution of Kosovo Judicial Council's budget have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee related to the use of financial resources.

Basis for conclusion

A2 KJC made an overpayment of €5,664 for having accepted other equipment than the contracted ones.

For more detailed information see subchapter 2.2 Issues with impact on the compliance conclusion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. NAO is independent from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of Management and Those Charged with Governance for the Annual Financial Statements

The Director of Secretariat and the Chief Financial Officer are responsible for the preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards – Financial reporting under the cash basis of accounting. In addition, the Director of Secretariat and the Chief Financial Officer are responsible for establishing internal controls which they determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. This includes the fulfilment of requirements of the Law no.03/L-048 on Public Finance Management and Accountability and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

The Chairman of KJC is responsible to ensure the oversight of the Kosovo Judicial Council's financial reporting process.

Management's Responsibility for Compliance

Kosovo Judicial Council's management is also responsible for the use of Kosovo Judicial Council's financial resources in compliance with the Law on Public Financial Management and Accountability, and all other applicable rules and regulations.³

³ Collectively referred to as compliance with authorities

Auditor General's Responsibility for the audit of AFS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our objective is also to express an audit opinion on compliance of respective Kosovo Judicial Council's authorities with the applicable policies, rules and regulations as regards making use of financial resources of the audited Organisation

As part of an audit in accordance with the Law on NAO and ISSAIs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Identify and assess the risks of non-compliance with authorities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on compliance with authorities. The risk of not detecting an incidence of non-compliance with authorities resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Kosovo Judicial Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management and those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The audit report is published on the NAO's website, except for information classified as sensitive or other legal or administrative prohibitions in accordance with applicable legislation.

2 Findings and recommendations

During the audit, we have identified areas of possible improvement, including internal control, which are presented for your consideration below in the form of findings and recommendations. These finding and recommendations are intended to make necessary adjustment to the financial information presented in the financial statements, including disclosures in the notes, and improve internal controls relevant to financial reporting and compliance with authorities in connection to the management of public sector funds. We will follow up these recommendations during next year's audit.

This report has resulted in five recommendations, of which four are new ones, one has been repeated.

For the status of the previous year's recommendations and the level of their implementation, see Chapter 4.

2.1 Issues with impact on the audit opinion

Issue A1 – Overstatement and understatement of capital and non-capital assets

Finding

MoF Regulation no. 02/2013 on Management of non- financial assets by budget organizations, Article 6.3, stipulates that Capital assets must be recorded in KFMIS, whilst non-capital assets and stocks in the “e- assets” system. Further on, Article 22.1, stipulates that depreciation of assets shall be carried out based on the linear method. The assets shall be evaluated with due consideration of depreciation accumulated by the time of its acquisition.

KJC's capital assets register was overstated by €2,037,278 because it did not include six building and four land plots that were not being used by KJC, but were instead given to different central and local institutions for use. KJC had submitted a request to the Ministry of Finance for writing these properties off its books, but this has not occurred yet. On the other hand, the capital assets register was understated by €9,701 due to failure to record the payment made for the rehabilitation of KJC's car park.

The non-capital assets register was understated by €19,227 (purchase value €24,286) because 46 IT equipment purchased in 2021 were not recorded in this register. On the other hand, the depreciation expenses for IT equipment already recorded in the register were calculated by €46,576 more than it should have been. Moreover, we were not able to see that the capital assets of €62,848, which had been reported in as unrecorded ones in our audit report 2020, have been recorded.

The value of non-capital assets presented in the AFS was based on the non-financial assets stocktaking reports for year 2021. For the purpose of calculating the depreciation, the date when the stocktaking had taken place in the respective units was put as the purchase date of all equipment, rather than putting their actual date of purchase. Moreover, the depreciation rate applied was an overall rate of around 72% and was not based on the type of equipment. Given that we were not able to obtain all the evidence to find out the real date of purchase, we could not make an accurate calculation of the amount of error. However, based on our analyses, we found that the error is significant but not material.

All this has occurred due to poor internal controls over assets recording and reporting.

Impact

Recording of assets not used by KJC in the assets register has led to overstatement of assets, whilst failure to record the purchases and the incorrect depreciation have led to understatement of assets value in the accounting registers. All this has resulted in untrue presentation of assets in the AFS, which increases the risk that assets may be lost, misused or alienated.

Recommendation A1

The Chairman of KJC should, in cooperation with Treasury and the institutions making use of the property, ensure that assets not being used by KJC are transferred to the institutions they belong to. He should also ensure that purchased capital and non-capital assets are recorded in the respective registers in order to have a complete assets register and a fair presentation of assets in the AFS. Moreover, he should ensure that depreciation of these assets is made by using the depreciation rates defined in the Regulation, based on their actual date of purchase.

Entity management response (Agree).

2.2 Issues with impact on the compliance conclusion

Issue A2 – Overpayment as a result of having accepted equipment other than the contracted ones

Finding

Financial Rule no.01/2013/MF on Spending of Public Funds, Article 25, stipulates that prior to registering the expenditure in KFMIS, documentation for payment is submitted to the certification officer who is responsible to ensure that the implementable conditions of a public contract are met and that all levels of internal financial control are implemented.

For the project "Construction of the Basic Court of Prishtina building - Fushë Kosova branch" in the amount of €744,251, the KJC paid the amount of €11,800 for two thermal pumps "air-water" of 15.8kW capacity, but they accepted a pump of 32kW capacity instead. Comparing the change of items - the paid pumps (as specified in the contract) and the received ones - the KJC paid €5,664 more. Moreover, the company had stated in its bid that it would have delivered the equipment from the ITTAP Company - Italy, whilst the accepted one was for Grohod brand. It is worth mentioning the fact that the KJC after receiving the draft audit report, had taken measures to replace the pumps according to payment and contract.

This has occurred because KJC, in lack of internal capacities, outsourced the oversight of works to an external company. Although the contract manager was appointed to monitor this project, the same had not noticed this deviation from the contract. In discussion with the supervising company, they justified the changed items with the fact that in terms of kW capacities, the accepted big pump is a replacement of both the small ones.

Impact Spending for unaccepted goods is in contradiction to the Regulation on spending of public funds. It causes damages to the budget and prevents the organization from achieving its objectives.

Recommendation A2 The Chairman of KJC should increase the oversight on all level of financial control to ensure that payments are made for goods received according to the contract only.

Entity management response (Agree).

2.3 Other financial management and compliance issues

2.3.1 Capital and non-capital assets

The amount of capital assets presented in AFS is €16,314,550, that of non-capital assets is €789,467, and of stock is €85,642. We tested 85 samples of €6,226,195 as part of substantive testing, as well as we have done compliance tests.

Issue B1 – Poor recordkeeping of assets under €1,000 and stocks

Finding According to MoF Regulation no. 02/2013 on Management of Non-financial Assets by Budget Organizations, Article 6.3, non-capital assets and stocks should be recorded in the e-assets system. Further on, Article 19, section 4.3, stipulates that Non-Financial Assets Inventorying Commission should compare the inventory balance with the balance in the non-financial assets registers.

KJC did not apply the e-assets system to record and maintain non-capital assets and stocks. KJC did not keep internal registers to record non-financial assets either. The non-capital assets amount of €789,468 and the stocks amount of €85,642 – presented in the AFS – was based on the report on inventory carried out by the end of the year. Given the lack of a non-financial assets register, the inventorying commission was not able to reconcile the inventory balance with that in the assets registers.

Identified weaknesses in the management of non-capital assets were caused by inadequate functioning of internal controls, lack of communication, and non-operating e-assets system.

Impact

Failure to keep records on non-financial assets and stocks as well as failure to reconcile the inventory balance with that in the accounting register leads to overstatement/understatement of information on the assets balance. This increases the risk that assets may be misused, lost, or alienated as well as leads to their unfair presentation in the AFS.

Recommendation B1

The Chairman of KJC should strengthen control over assets management and, through courts administrators, should ensure that non-capital assets are recorded in the respective registers according to the statutory requirements. In addition, he should ensure that a comparison of the assets balance in the inventory report with the balance in the assets registers is made and that eventual differences are presented in the AFS.

Entity management response (Agree).

2.3.2 Contingent liabilities

The statement of contingent liabilities at the end of 2021 was €47,302,352. We tested 29 samples of €43,462,873 as part of substantial and compliance testing. These liabilities are related to lawsuits filed by persons who had been deprived of their freedom, but were later acquitted, as well as to other lawsuits related to the parties' disagreement with decisions of the respective Courts.

Issue A3 – understatement of contingent liabilities

Finding Pursuant to MF Regulation no.01/2017 on Annual Financial Reporting, Article 18, budget organisations should report on all contingent liabilities in compliance with the Law on Public Finance Management and Accountabilities.

In three cases, the value of contingent liabilities was not calculated correctly, because it did not include all the liabilities generated by lawsuits. As a result, the value of contingent liabilities presented in the AFS was understated by €13,814.

This occurred due to lack of managerial controls and neglect of responsible officers.

Impact Understatement of contingent liabilities leads to untrue and unfair presentation of information in the financial statements.

Recommendation A3 The Chairman of KJC should provide for effective controls over the recording of contingent liabilities in order to have an accurate register of contingent liabilities and a fair reporting in the AFS.

Entity management response (Agree).

2.3.3 Internal audit function

The Internal Audit Unit of KJC operates with four members of staff, including the Director. For 2021, IAU planned 10 audits and carried out all of them. This unit has reported to the Central Harmonisation Unit as required.

Issue A4 – Audit Committee not functioning

Finding MF Administrative Instruction no.01/2019 on the Establishment and functioning of the audit committee in a public sector entity, Article 8, stipulates that the audit committee should meet at least four (4) times a year.

During 2021, the audit committee met only once in the second quarter, whilst by the end of the year the committee was completely dissolved. The management established the new audit committee on 31.12.2021.

According to responsible persons, failure to keep regular meetings was as a result of the pandemic situation and due to resignation of the committee's members by the end of the year.

Impact Failure to have an AC in place and functioning may undermine the quality of IAU work as well as the assurance provided to the management regarding the effectiveness of key financial controls, which also affects the management encouragement to implement the audit recommendations.

Recommendation A4 The Chairman of KJC should encourage and support the work of the audit committee in order to ensure that its role and mission in the organisation are accomplished and that the internal audit function is well monitored.

Entity management response (Agree).

3 Summary on budget planning and execution

This chapter gives a summarised information on the sources of budget funds, spending of funds and revenues collected, by economic categories. This is highlighted in the following tables:

Table 1. Expenditures by sources of budgetary funds (in €)

Description	Initial Budget	Final Budget ⁴	2020 Outturn	2019 Outturn	2018 Outturn
Sources of Funds	29,194,592	28,468,556	28,028,490	27,080,416	28,529,735
Government Grant -Budget	27,503,334	26,490,384	26,363,280	25,602,096	26,753,166
Carried forward from previous year	0	256,350	0	0	0
Own Source Revenues	1,691,258	1,691,258	1,644,349	1,434,908	1,638,087
External Donations	0	30,565	20,861	43,412	138,482

The final budget is lower than the initial budget by €726,036. This decrease is a result of the revised Law on Budget and the Government's decision.

In 2021, the BO spent 98% of the final budget for 2021, or €28,028,490, an improvement of 2% compared to 2020.

Table 2 – Spending of funds by economic categories - (in €)

Description	Initial Budget	Final Budget	2020 Outturn	2019 Outturn	2018 Outturn
Spending of funds by economic categories	29,194,592	28,468,556	28,028,490	27,080,416	28,529,735
Wages and Salaries	24,166,766	23,290,742	23,277,174	23,300,383	23,684,488
Goods and Services	3,407,826	3,557,732	3,491,931	2,901,150	3,760,544
Utilities	350,000	330,733	328,195	287,389	319,449
Subsidies and Transfers	500,000	756,350	457,501	243,650	456,814
Capital Investments	770,000	533,000	473,689	347,845	308,441

Explanations for the current position are detailed below:

The final budget for Wages and Salaries was decreased by €876,024. Such a change was a result of the budget cut of €906,042 upon Government's decision and received donations of €30,018.

The final budget for Goods and Services was increased by €149,906 compared to the initial budget. Such change was a result of Government's decision to transfer funds of €137,000 from the category

⁴ Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance

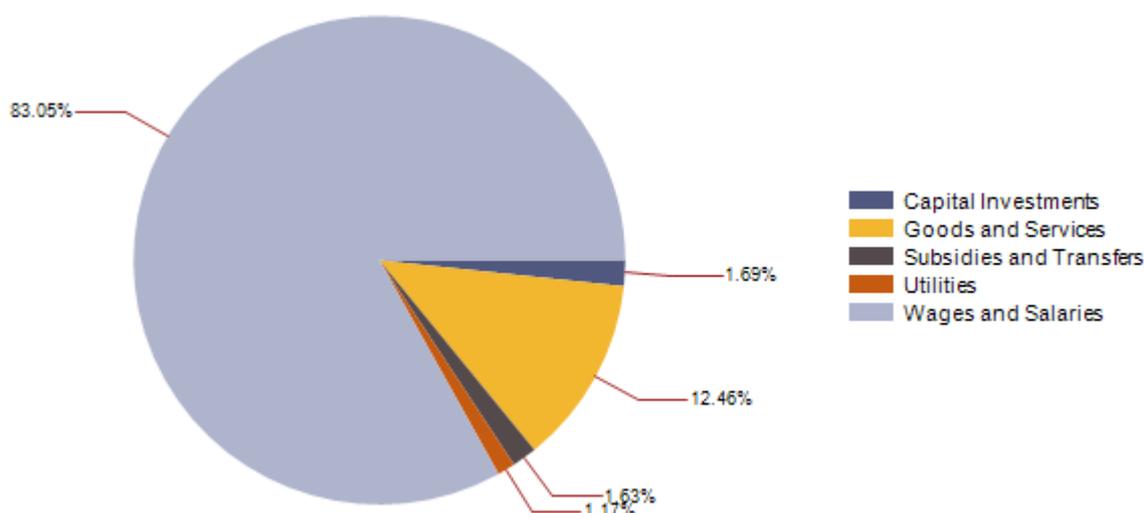
of Capital Investments, followed by the Government's decision for budget cut by €710, and the yearend Government's decision to increase the budget by €13,607.

The final budget for Utilities was decreased by €19,267 compared to the initial budget. This was as a result of budget cuts at the end of the year based on the Government's decision.

The final budget for Subsidies and Transfers was increased by €256,350 compared to the initial budget. This was as a result of unspent own source revenues carried forward from the previous year.

The final budget for Capital Investments was decreased by €237,000 compared to the initial budget. Such decrease was as a result of the revised budget wherewith the budget was cut by €100,000 and the Government's decision to transfer funds of €137,000 to the category of Goods and Services.

Chart 1. Expenditures by economic categories for year 2021



Revenues generated by KJC in 2021 totalled to €9,019,139. These relate to traffic fines, court fines, court fees, compensation fees for crime victims, fines and fees from the Special Chamber of the Supreme Court. Compared to the previous year, revenues have increased by €2,976,287 or 49%. This is related to the increase in the number of cases resolved by the courts.

Table 3. Revenues (in €)

Description	Initial budget	Final Budget	2020 Receipts	2019 Receipts	2018 Receipts
Total revenues	6,959,118	7,718,557	9,019,139	6,042,852	7,608,314
Non-tax revenues	6,959,118	7,718,557	9,016,883	6,042,371	7,602,279
Other revenues	0	0	2,256	481	6,035

4 Progress in implementing recommendations

Our audit report on 2021 AFS of the Kosovo Judicial Council resulted in three key recommendations. KGJK prepared an Action Plan stating how all recommendations will be implemented.

By the end of our 2021 audit, two recommendations have been implemented, and one was not implemented yet, as shown in the following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 3 (or Table of recommendations).

Chart 2. Progress in implementing prior year's recommendations

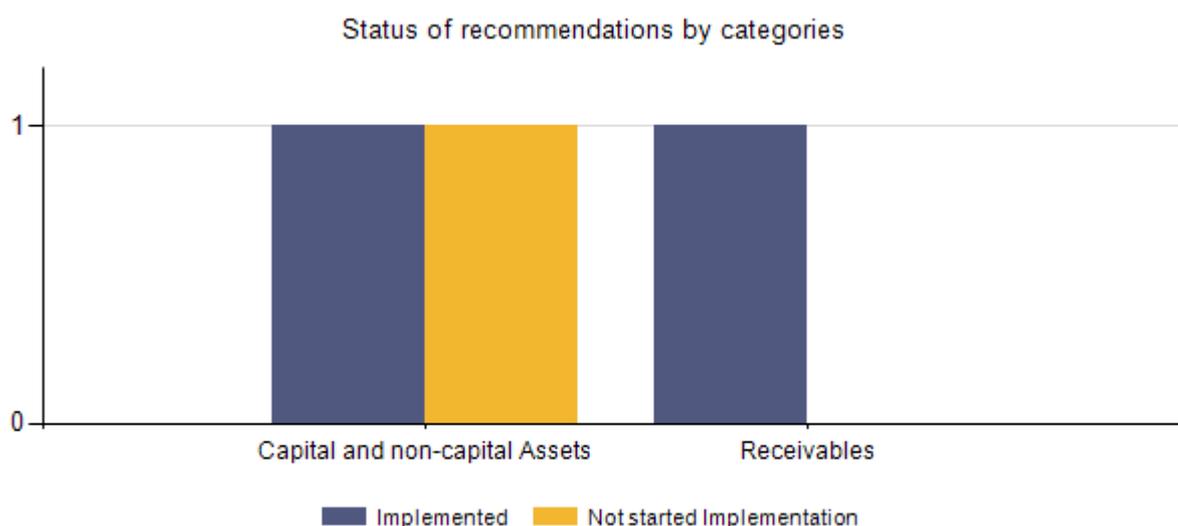


Table 3 Summary of prior year's recommendations

No	Audit area	Recommendations of 20XX-1	Actions taken	Status
1	Assets	The Chairman of Kosovo Judicial Council should ensure that the stocktaking commission, prior to the preparation of the AFS, carries out stocktaking of all assets in the KJC and prepares the report thereon	KJC has carried out the stocktaking in all its units	Implemented
2	Assets	The Chairman of Kosovo Judicial Council through the Administrators should ensure that all assets are recorded in the relevant registers in order to have asset management and reporting in accordance with the requirements of the Regulation on Management of Non-financial Assets	This year's audit results show that the actual situation is the same	Implementation not started
3	Accounts receivable	The Chairman of Kosovo Judicial Council should take measures to ensure that accounts receivable are recorded on the basis of invoices and that their amount is truly disclosed in the AFS based on the records of the electronic revenue management system.	KJC has disclosed the true value of accounts receivable	Implemented

Vlora Spanca Auditor General

Naser Arllati Assistant Auditor General

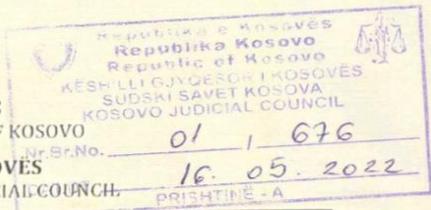
Blerina Krasniqi Head of Audit

Pleurat Isufi Team Leader

Qëndresa Isufi Team member

Annex I: Letter of confirmation


REPUBLIKA E KOSOVËS
REPUBLIKA KOSOVA - REPUBLIC OF KOSOVO
KËSHILLI GJYQËSOR I KOSOVËS
SUDSKI SAVET KOSOVA - KOSOVO JUDICIAL COUNCIL


Nr. Sr. No. 01 / 676
16. 05. 2022
PRISHTINË - A

LETËR KONFIRMIMI

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2021 dhe për zbatimin e rekomandimeve

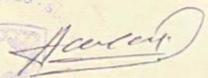
Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Këshillit Gjyqësor të Kosovës, për vitin 2021 (në tekstin e mëtejme "Raporti");
- **pajtohem**/ nuk pajtohem/ pajtohem pjesërisht/ me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit;
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për zbatimin e tyre.

Z. Albert Zogaj
Kryesues i Këshillit Gjyqësor të Kosovës




Data: 16 maj 2022, Prishtinë

Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor's Report

Auditor's Report on the financial statements⁵ should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities⁶. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

For the purpose of concluding whether an opinion on the financial statements is modified or unmodified an auditor should assure himself/herself whether audit results include or not (a) detected material or pervasive misstatement(s) or potential one(s) presumed in the event of a limitation of scope.

A misstatement is a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

(extract from ISSAI 200)

Forms of opinion

Unmodified opinion

It is formulated when no misstatements or non-compliance were detected or misstatements and/or non-compliance were detected, a single one or aggregate, that do(es) not equal or exceed the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions do(es) not equal or exceed the level of lower materiality established for this class of transactions. It is also formulated if there is no limitation of scope or a limitation of scope may not lead to omission of (a) material misstatement(s) and/or non-compliance).

Limitation of scope occurs when an auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

The auditor should express **an unmodified opinion** if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

Modifications to the opinion in the auditor's report

The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement

⁵ Financial statements in the public sector include also the statement(s) of budget execution

⁶ Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

and/or non-compliance, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement and/or non-compliance, the auditor should modify the opinion in the auditor's report. A modified opinion may be:

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that equals or exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions equals or exceeds the level of lower materiality established for this class of transactions. It is also formulated if there is a limitation of scope that may not lead to omission of (a) material misstatement(s).

Adverse opinion

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that pervasively exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions pervasively exceeds the level of lower materiality established for this class of transactions.

"Pervasive is a term used, in the context of misstatements and/or non-compliance, to describe the effects of misstatements and/or non-compliance on the financial statements or the possible effects on the financial statements of misstatements and/or non-compliance, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- a) Are not confined to specific elements, accounts or items of the financial statements
- b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Disclaimer of opinion

It is formulated when limitation of scope, i.e. inability to obtain sufficient appropriate audit evidence, is material and pervasive.

Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor's report

If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not materially misstated in the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading “Emphasis of Matter” or another appropriate heading;
- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor’s opinion is not modified in respect of the matter emphasised.

If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor’s judgement, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading “Other Matter,” or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph.